

Bush walks like a duck as GOP bolts

By: David Rogers and Patrick O'Connor in Politico
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From Medicare to mortgages, President Bush's lame-duck status is more and more evident in Congress, as restless Republicans defect and power shifts to activist Cabinet members, such as Treasury Secretary Henry Paulson, willing to engage with Democrats.

Within hours of receiving Bush's veto message on Medicare legislation on Tuesday, lawmakers overrode the president, putting into law a bill that many Democrats — only weeks ago — didn't think had enough votes to get through Congress.

Instead, Republican defections tipped the scales dramatically, and on the veto override, 153 members of the president's party joined 230 Democrats on the 283-41 vote. The Senate followed, 70-26, with 21 Republican defections.

The current crisis over the mortgage finance industry shows the other side of the coin. The president used a televised news conference Tuesday to endorse Treasury's plan to shore up investor confidence in the two troubled giants: Fannie Mae and Freddie Mac. But again, Republicans are defecting, prompting delays in the House and forcing Paulson to rely on Democrats to see the bill through Congress.

A Wall Street veteran with a measure of moxie, the Treasury secretary dominates the political stage like few others in the Cabinet. Together with Federal Reserve Chairman Ben Bernanke, Paulson can overshadow Bush himself in today's economy.

But with the Dow Jones falling below 11,000 Tuesday and inflation rising at the fastest pace in decades, it is a perilous situation. And Paulson faces both political sniping from the White House and sometimes heavy-handed dealing by Democrats as he seeks to address the Fannie and Freddie crisis.

Treasury's plan asks for temporary 18-month authority to extend credit and even purchase an equity interest in the two government-sponsored entities, or GSEs, which have seen their stock value plummet in recent weeks. To expedite matters, the legislation would be added to a pending housing bill in Congress. And to make the deal work — and help Paulson with the White House — Democrats said Monday that they would drop \$4 billion in community development block grant, or CDBG, funds, which had provoked a Bush veto threat.

Those signals changed late Tuesday as more Republicans defected, providing an opening for the Democratic leadership to delay action and also restore the community development funds. The Congressional Black Caucus had protested the loss of the money, but the decision jeopardizes the larger package and could put Paulson in an untenable situation.

Just hours earlier, the secretary had told the Senate Banking Committee that his working assumption had been that the CDBG funds would be dropped, and urged agreement in dealing with the market crisis.

"I just hope we can get this done quickly; we don't take hostages," Paulson told senators. "It would just be a great signal for the whole world to move this through quickly."

During the same hearing, Paulson endured a verbal pounding from conservative Sen. Jim Bunning (R-Ky.), but his larger problem lies with Republicans in the House.

Minority Leader John A. Boehner (R-Ohio), who had talked with the secretary on Saturday about the Treasury plan, signaled his concern to Politico on Monday night. This sentiment became more public Tuesday as Rep. Spencer Baucus of Alabama, the ranking Republican on the House Financial Services Committee, also asked for more time to consider the Treasury plan. And more than two dozen Republicans signed a letter to House Speaker Nancy Pelosi (D-Calif.) suggesting that the risks to the taxpayer were too great to proceed quickly.

"It's nonsensical," said Rep. Jeb Hensarling (R-Texas). "You can't have it both ways and say, 'Yeah, they're about to go belly up, so I'm going to increase their responsibilities and increase their financial exposure.'"

"Nobody wants to see Fannie and Freddie fail," he said. "But what are the methods, and what are the legislative tools that we use to assure that the problems in the housing market are not exacerbated?"

"You're drowning, so go out to deeper water. How much sense does that make?"

The Associated Press reported shares of both mortgage companies continued their fall on Wall Street on Tuesday. Fannie Mae fell more than 27 percent to \$7.07. Freddie Mac shares declined about 26 percent, to \$5.26. Shares of each company have lost about half their value since the beginning of last week.

House Democrats hope to regroup and bring the housing bill out to the floor — with the Treasury language — next week. But at a time when Pelosi is talking up the need for a second economic stimulus package, any decisions that weaken Paulson could be costly.

"This is a serious situation," said Larry Summers, who held Paulson's post in the second Clinton administration. "We are in much more danger of responding insufficiently than responding excessively. It is time at last for policy to get ahead of the curve."

Summers spoke after a meeting between the speaker and economists like himself, all of whom urged a mix of public investments in infrastructure, new tax cuts and steps to address higher energy costs. But Paulson was a crucial ally for Pelosi in the first stimulus package last winter, and to get anything enacted into law will surely require his help with the White House.

"We're in a box here, and I don't know how else we get out," Sen. Chuck Hagel (R-Neb.) said after hearing Paulson's testimony on the Treasury plan.

"This administration has never ever had a strategic concept of what they were going to accomplish for the long-term good of America," Hagel told Politico. "They have been consumed with terrorism; they have been consumed with national security."

"If Paulson and [Defense Secretary Robert] Gates and, I think, [White House chief of staff] Josh Bolten would have been at the front end of this administration, at the beginning, I think you'd see a whole different landscape, but we've never had any strategic thinking."

The Medicare measure, which now becomes law, blocks a scheduled 10.6 percent cut in Medicare reimbursements for physicians, but it pays for itself by effectively taking money from private Medicare Advantage health plans championed by the administration as an alternative to the government-run program for the elderly.

For this reason, Democrats never expected to prevail when the package was brought to the House floor in late June. But Republicans defected in huge numbers, and resistance in the Senate collapsed last week.

The 21 Republicans who opposed the president grew from 18 last week. The number would have been higher but for the absence of Sen. John Warner (R-Va.). Altogether, four more Republicans — three of whom are up for reelection in November — switched against Bush on the override.